S&P Global Ratings

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Caribbean Development Bank

Primary Credit Analyst:
Abril A Canizares, Mexico City (52) 55-5081-4417; abril.canizares@spglobal.com

Secondary Contact:
Alexander Ekbom, Stockholm (46) 8-440-5911; alexander.ekbom@spglobal.com

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Caribbean Development Bank

Rationale

Counterparty Credit Rating
Foreign Currency
AA+/Stable/A-1+

The ratings reflect S&P Global Ratings' view that Caribbean Development Bank (CDB) has improved its business profile while maintaining extremely strong capital. In addition, one of the largest members that was late on capital subscriptions started and is expected to fully comply with remaining installments before year-end 2017, which we think is a demonstration that CDB's public policy mandate is strengthening. Moreover, delays in subscriptions payments have not been meaningful--representing 3% of the total 2010 general capital increase (GCI). After 2017, the capital installment arrears would be below 1% of total approved GCI.

Also, other initiatives not directly linked to the balance sheet, such as the U.K. giving CDB the mandate to administer a £300 million fund ("U.K. Caribbean Infrastructure Partnership Fund"), speak to the role and mandate of the institution.

Regarding preferred creditor treatment (PCT), over the past five years, some of CDB's member country borrowers defaulted to their commercial creditors but stayed current to CDB. In our opinion, CDB has proven its status as a preferred creditor. For instance, the selective default by Belize (a borrowing member country) in February 2017 did not result in arrears or missing payments on CDB's outstanding loans. The same happened following Jamaica's selective default in 2010. The only instance since CDB's inception in 1969 that it was not treated as a preferred creditor occurred in 2012, when a member country defaulted on a very small loan. The amount in arrears was subsequently cured before year-end 2012, so the bank did not report any impairment in the full-year accounts. CDB continues to report very low impaired and past-due loans, totaling $5.1 million as of Dec. 31, 2016, and all come from two private-sector loans to one borrower.

The bank's loan concentration has been gradually reducing but remains high, in our view. As of December 2016, the top three borrowers represented 42% of the total loan portfolio (Jamaica 18%, Barbados 14%, and Belize 10%), compared with a peak of 50% in 2013. To offset large concentrations and exposures to several sovereigns with relatively high default risk, CDB maintains high capitalization, even considering our adjustments to its RAC ratio.

CDB was established in 1969 and remains one of the most prominent lenders in the Caribbean. It provides long-term financing with grace periods and below-market rates of interest, as well as guarantees, a role that, in our view, cannot be fulfilled by another private or domestic public institution in the Caribbean. Its role was reaffirmed in the 2015-2019 strategic plan, in which the bank's board of directors endorsed the goal of reducing inequality and halving the incidence of extreme poverty in its borrowing member countries by 2025.

The ratings on CDB, which pertain only to CDB's ordinary capital resources (OCR), reflect its strong business profile and extremely strong financial profile. Although CDB benefits from $205 million in eligible callable capital from its 'AAA' rated shareholders (Canada and Germany), CDB's capital adequacy is extremely strong, which is why we do not incorporate any uplift above the 'aa+' stand-alone credit profile in deriving the 'AA+' long-term issuer credit rating.

CDB's members have demonstrated their support to the bank. In May 2010, CDB's board of governors approved a

$217 million (138% increase over the bank's capital) GCI in paid-in capital. The payment occurred in six annual and equal installments from 2011 to 2016.

The bank also has a robust shareholder relationship. Brazil became a member in 2015 and has paid its subscription on time and in cash--unlike other multilateral lending institutions (MLIs), to which Brazil has capital installment delays. Significant support from nonregional members also materializes in the funding of CDB's special funds resources (SFR; not rated), which provide grants and concessional loans to the bank's lower-income borrowing member countries. This has helped sustain the credit quality of the OCR.

France's departure from CDB nearly two decades ago--although a remarkable event in that it's the only major G20 country to have withdrawn from a multilateral bank, to our knowledge--does not weigh on the ratings on CDB, in our view, because it did not occur in the recent past.

CDB has continued to take actions to strengthen its governance and risk management. In late 2015, CDB's new strategic framework for integrity, compliance, and accountability began operations. CDB has also strengthened its internal audit and oversight procedures, as well as created a code of conduct for the board of directors. Offsetting these factors is the potential agency risk that stems from the majority of voting shares (55% as of 2016) coming from borrowing-eligible members. We believe that such a structure could create problems in stressed environments, but we also recognize CDB's track record of operating under a consensus model in difficult times in the past. We believe, especially in the case of CDB, that the similar economic structures of the regional members make it important to maintain a close relationship with nonborrowing members for financial and other forms of support in case they're needed.

The accounting treatment of CDB's derivative positions generates volatility in CDB's comprehensive income, which factored heavily in the $15.7 million comprehensive loss the bank reported in 2016. CDB's derivatives are not traded and are being held until maturity; accordingly, this volatility remains unrealized and is not included in the operating income, which is used in the calculations of its key ratios.

CDB's extremely strong financial profile is based mainly on a risk-adjusted capital (RAC) ratio after adjustments of 32%, with rating parameters as of July 12, 2017, well above our 23% threshold for extremely strong capital adequacy. Additionally, CDB's eligible 'AAA' callable capital of $205 million provides a buffer if CDB's own balance sheet RAC after adjustments were to fall below the extremely strong threshold.

CDB's static funding gap in December 2016, with all scheduled loan disbursements at one year, was 2.16x. The static funding gap is calculated as maturing assets divided by maturing liabilities; the ratio is cumulative and based on scheduled receipts and payments.

On the other hand, liquid assets as a percentage of adjusted total assets increased to 28% in December 2016 from 19% a year earlier, mainly because of the Swiss franc (CHF) 145 million bond issued in July 2016. CDB's liquidity ratio at one year with all scheduled loan disbursements was 1.11x as of Dec. 31, 2016. Under our extreme capital markets and economic conditions stress test, CDB's liquid assets are sufficient to service its debt and maintain operations for one year without capital market access.

Outlook

The stable outlook is mainly based on our view that in 2017 and 2018 CDB will maintain its extremely strong financial profile backed by a high level of capitalization. We expect its RAC ratio after diversification to remain well above the extremely strong capital adequacy threshold, even if the asset quality of the loan book weakens. In addition, the stable outlook is based on our expectation that PCT status will be preserved. We also factor in continued strong support from shareholders underpinning CDB's business profile and its role and mandate.

We currently consider the likelihood of an upgrade remote. We could raise the ratings on CDB if the bank consistently strengthens its governance and management expertise, according to our criteria definitions, by effectively removing potential agency risk and strengthening its risk-management framework.

We could lower the ratings on CDB if the relationship with shareholders deteriorates or if the bank is no longer afforded PCT by its members. We consider these events unlikely in the medium term.

Stand-Alone Credit Profile: 'aa+'

CDB's stand-alone credit profile (SACP) is 'aa+', which results from a combination of a strong business profile and extremely strong financial profile.

The SACP broadly reflects our opinion of CDB's stronger public policy mandate given that one of its largest members that was late on capital subscriptions started to become current and is expected to fully comply with remaining installments before year-end 2017, which we think is a demonstration that CDB's public policy mandate is strengthening. Moreover, delay in subscriptions payments has been not meaningful, representing 3% of the total 2010 GCI. As well, the bank maintains a strong shareholder relationship; Brazil joined in 2015 and paid its subscription on time and in cash, different from other MLIs to which Brazil has had capital installment delays. CDB also has proven to have strong PCT, in our opinion. For instance, the selective default by Belize, a borrowing member country, did not result in arrears or missing payments to CDB's outstanding loans. Finally, the bank's loan concentration has steadily reduced, and the bank maintains high capitalization to offset large concentration and exposures to several sovereigns with relatively high default risk.

Our analysis also draws comparisons with several peers (see table 1). We selected these multilateral development banks as peers because of their concentration of activities in emerging and frontier markets, as well as their regional or subregional focus. (We publish our comparative statistics in this report with a one-year lag to respect the confidentiality of those institutions whose boards have not approved their fiscal year-end 2016 financial statements as of the date of this report.)

Table 1

Selected Comparative Statistics For CDB And Peers

As of fiscal year-end 2015 and 2016

	Total adjusted assets (mil. US$)	RAC ratio after adjustments (%)*	Purpose-related assets (gross)/adjusted total assets (%)	Gross debt/adjusted common equity (x)	Liquid assets/adjusted total assets (%)	Static funding gap at one year (x)§
Caribbean Development Bank	1,541**	32¶	66**	0.8**	28**	2.2**
Corporacion Andina de Fomento	32,470	17	62	2.0	33	1.8
Central American Bank for Economic Integration	8,813	10	71	1.9	27	1.7
Fondo Latinoamericano de Reservas	6,194	117	11	0	91	1.4
Eurasian Development Bank	2,896	19	50	0.8	45	3.2
Black Sea Trade and Development Bank	1,400	34	86	0.8	15	1.9

*RAC--Risk adjusted capital ratio. Ratings parameters as of July 31, 2016. **As of fiscal year-end 2016. ¶As of fiscal year-end 2016 and ratings parameters as of July 12, 2017. §The static funding gap is maturing assets divided by maturing liabilities. It is cumulative and based on scheduled receipts and payments. Source: Supranationals Special Edition 2016: Five-Year Comparative Data For Multilateral Lending Institutions, Sept. 29, 2016.

Business Profile: Strong

CDB has a strong business profile, in our opinion, reflecting the bank's role, public policy mandate, and governance.

Policy Importance Assessment

Since its establishment in 1969, CDB has served a prominent role as the cornerstone lender to Caribbean governments, with 97% of loans, 30% of these are policy-based loans, as of Dec. 31, 2016, and the remainder to several private financial institutions in the region. CDB provides long-term project financing often accompanied by grace periods and below-market rates of interest. In addition, CDB has provided guarantees, including partial guarantees on rescheduled commercial bonds of one of its members. The bank also provides grants and low-interest loans to its poorest members via its soft loan window, the SFR. This role was reaffirmed in its 2015-2019 strategic plan, which its board of directors (BOD) approved in December 2014. In this plan, the bank's BOD endorsed the goal of reducing inequality and halving the incidence of extreme poverty by 2025 within its borrowing member countries.

Table 2

Principal Business Activities

	--Year ended Dec. 31--				
	2016	2015	2014	2013	2012
Purpose-related assets (gross)/adjusted total assets (%)	66	76	75	69	63
Net loans/adjusted total assets (%)	66	73	74	69	62

Table 2

Principal Business Activities (cont.)

	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Public-sector (including sovereign-guaranteed) loans/total loans (%)	97	96	96	95	95
Private-sector loans/total loans (%)	3	4	4	5	5
Equity investments/adjusted total assets (%)	0	0	0	0	0
Memo (mil. US$):					
Total guarantees	12	12	12	12	12
Total adjusted assets*	1,541	1,355	1,327	1,411	1,587

*Adjustments made to reported shareholders' equity to calculate adjusted common equity (an institution's cash capital) are carried through to total assets.

CDB demonstrated its ability to lend countercyclically in the wake of the Great Recession. The bank increased its net loans outstanding by 6% and 21% during 2009 and 2010, respectively. Sovereign customer demand slackened during 2012-2013 as many borrowing member countries consolidated their fiscal positions, reducing their capital project financing demands.

In 2016, loans outstanding continued increasing, to $1.014 billion from $989.5 million the previous year. Approvals and disbursements also increased, and we expect that they will continue to over 2017 and 2018. Over the last three years, loan demand increased, following the 2011-2012 period of decreasing loan demand resulting from borrowing countries' limited fiscal capacity for more capital expenditure.

In our view, CDB will maintain its prominent role, mainly through its partnerships and financing:

- Caribbean Aid for Trade and Regional Integration Trust Fund (Department for International Development of the United Kingdom [DfID])
- Community Disaster Risk Reduction Fund (Canada)
- Sustainable Energy for the Eastern Caribbean (SEEC) Programme (DfID, Caribbean Investment Fund [CIF])
- Sustainable Energy Facility (IDB's Clean Technology Fund, U.K.)
- EPA and CARICOM Single Market and Economy (CSME) Standby Facility (ECT/EU)
- Micro Insurance Catastrophe Risk (Haiti) Fund (DfID)
- Fund for Sugar Replanting in Belize (EU)
- U.K. Caribbean Infrastructure Partnership Fund
- Adaptation Fund and the Green Climate Fund
- The Africa Caribbean Pacific (ACP) – European Union (EU) Natural Disaster Risk Reduction (NDRR) Program
- Canadian Support to the Energy Sector in the Caribbean

CDB's members have demonstrated their support for the bank. In May 2010, CDB's board of governors approved a $217 million GCI in CDB's paid-in capital, by nearly 138%. The payment occurred in six annual and equal installments from 2011 to 2016.

As of March 24, 2017, the amount of due and unpaid capital subscriptions was $5.9 million, or 2.7% of total matured subscriptions (down from 3.1% the previous year). One member honored a payment in December 2016 and has signed a settlement for the two remaining installments to be paid in 2017, which will imply a decrease in capital delays to

0.8% of total GCI from the actual 3%.

The bank's borrowing membership has extended beyond the English-speaking Caribbean and includes Haiti and Suriname (which joined in 2013) and Brazil, which joined on Dec. 31, 2015. Brazil fully paid its subscription to CDB on time and in cash, unlike other MLIs, to which Brazil has had capital instalment delays.

CDB's earnings are exempt from corporate income tax. CDB also traditionally has had high earnings retention as shareholders have forgone dividend payouts. This has allowed the bank to do transfers to off-balance-sheet funds (the SFR). In 2016, transfers to the operations of this soft loan window were $15 million according to the next four-year cycle.

In our opinion, CDB has proven to have stronger PCT. Belize's selective default in February 2017--caused by a missed coupon payment on its external bonds and following its debt rescheduling--did not result in arrears to CDB's outstanding loans (Belize outstanding loans represent 9% of the OCR portfolio). The same happened following Jamaica's selective default in 2010.

The only instance since CDB's inception in 1969 that it was not treated as a preferred creditor occurred in 2012, when a member country defaulted on a very small loan. The amount in arrears was subsequently cured before year-end 2012, so the bank did not report any impairment in the full-year accounts. CDB continues to report very low impaired and past-due loans, totaling $5.1 million as of Dec. 31, 2016, and all come from two private-sector loans to one borrower.

Additionally, CDB receives significant support from nonregional members, including funding of the SFR, which has helped sustain the credit quality of CDB's OCR. On occasion, CDB has restructured all or part of an OCR using SFR resources, particularly during natural disasters or a commercial debt restructuring.

Governance And Management Expertise

CDB continues to strengthen its governance by improving its risk management and monitoring. CDB's BOD approved a new strategic framework in May 2015, with an emphasis on whistle blowing, integrity, ethics, compliance, and accountability through the establishment of a new independent office (named ICA), which started operations in December 2015.

In October 2015, the BOD also approved its own code of conduct now in force and a new charter for the internal audit division (IAD) now operating. The oversight and assurance committee is now operational under its new mandate as well.

Regarding risk management, CDB's BOD sets the governance framework for the bank by determining the risk framework and the underlying policies and procedures. In 2013, CDB established the office of risk management to monitor and manage all risks that CDB faces, including strategic, financial, operational, and reputational risks. Since then, this office has been fully incorporated into the bank's operations.

The bank has taken steps to improve operational risk management, but it maintains an open position on two yen bonds that pass through significant volatility to shareholders' equity, a weakness of risk management. Because of that, sensitivity in profit generation toward yen exchange rate movements has been meaningful. The bank also entered into a currency-swap agreement by which proceeds of one Swiss franc-denominated borrowing were converted into U.S. dollars to hedge against ongoing operational currency risks.

CDB has complied with its portfolio exposure limits over the last three years and has reduced its loan concentration to the top three borrowers over the last five years. However, we view these limits as more expansive than development banks' with more diversified exposure. The exposure limit to its single largest borrower is either 40% of loans or 50% of the banks' internally calculated available capital--whichever is greater. The exposure limit to its three largest borrowers is either 60% of loans or 90% of available capital--whichever is greater. As of December 2016, the top three borrowers represented 42% of the total loan portfolio (Jamaica 18%, Barbados 14%, and Belize 10%), compared with a peak of 50% in 2013.

CDB's large sovereign loan portfolio also has significant geographic (Caribbean) risk and economic (tourism-intensive and U.S.- and European-market driven) risk. To offset this credit risk, CDB's shareholders have enabled management to maintain a high level of capitalization over the years, which continues to anchor the bank's creditworthiness.

CDB's culture of consensus-based voting on major issues has, in practice, mitigated the agency risk posed by borrowing-eligible members' majority control (55% as of Dec. 31, 2016) of voting shares.

Table 3

Shareholder Concentrations

(%)	Share of votes controlled by eligible borrower member countries	Share of votes controlled by non-borrowing-eligible member countries	Share of votes controlled by private-sector shareholders (if any)
Votes of shareholders	55	45	0

As of Dec. 31, 2016.

CDB does not pay dividends. It has traditionally maintained high earnings retention as shareholders have forgone dividend payouts.

Management's planning and liquidity management have improved since 2011 (when liquidity dipped). Currently, liquidity risk policy is to maintain a net three years' funding requirement of $48 million (same as in 2015) or 40% of undisbursed loan commitments and loans not yet effective of $534 million (it was $473 million in 2015)--whichever is greater. This framework better enables the bank to monitor possible changes in its RAC ratio.

CDB has traditionally used leverage conservatively--it was an average of 1.1x over the past decade. CDB's policy limits borrowing and guarantees to 100% of the callable capital of its investment-grade nonborrowing members plus the paid-in capital and retained earnings net of receivables from members.

In 2016, CDB had minor levels of private-sector impaired loans, which were more than fully provisioned for. Impaired loans reached $5.1 million as of Dec. 31, 2016, which represents 0.5% of the total loan portfolio. Impaired loans originated from a Caribbean developmental financial institution. Total provisions for the loans reached approximately $6.3 million as of year-end 2016, more than the loan principal, in order to account for loss of fees and include an inherent provision. In addition, collateral for impaired nonsovereign loans was around $7.2 million as of the same period.

Ernst & Young (Barbados), the independent external auditor of the bank, issued a clean opinion of CDB's annual financial statements prepared in accordance with International Financial Reporting Standards for the period ended Dec. 31, 2016.

Financial Profile: Extremely Strong

In our opinion, CDB has an extremely strong financial profile, based on our assessment of CDB's capital adequacy as well as its funding and liquidity.

Capital Adequacy

CDB's RAC ratio after adjustments as of December 2016 was 32% with ratings parameters as of July 12, 2017, and remains well above our 23% threshold for extremely strong capital adequacy. (The RAC ratio after diversification does not reflect the criteria correction published on July 11, 2017. In our assessment, the impact of the correction on the ratio is not material to the rating.)

The quality of CDB's cash capital, what we call adjusted common equity (ACE), is robust. It is composed primarily of paid-in capital and retained earnings. However, the accounting treatment of CDB's derivative positions generates volatility in CDB's comprehensive income, which factored heavily in the $15.7 million comprehensive loss the bank reported in 2016. CDB's derivatives are not traded and are being held until maturity; accordingly, this volatility remains unrealized and is not included in the operating income, which is used in the calculations of its key ratios.

Similar to other MLIs founded in the same era, CDB enables members to post their capital contributions in cash or promissory notes ("non-negotiable demand notes," in the bank's parlance). Likewise, members were able to pay their cash capital subscriptions in U.S. dollars or their national currency (most often an inactively traded Caribbean or "restricted" currency). Over the years and through the depreciation of several members' currencies, the major development banks determined that their financial stability was best sustained by converting their capital to U.S. dollars (or another hard currency) and discounting promissory notes from capital. We deduct these legacy instruments (and the maintenance of value payment receivable resulting from the remaining capital denominated in restricted currencies) from CDB's shareholders' equity to calculate ACE. CDB does not count these instruments for purposes of its core capital metrics.

Table 4

CDB's Risk-Adjusted Capital Adequacy As Of Dec. 31, 2016

(Ratings As Of July 12, 2017)

(US$000s)	Exposure	S&P Global Ratings RWAs	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	1,352,851	1,532,162	113
Institutions	299,908	88,296	29

Table 4

CDB's Risk-Adjusted Capital Adequacy As Of Dec. 31, 2016 (cont.)			
Corporate	0	0	0
Retail	0	0	0
Securitization	0	0	0
Other assets	94,707	73,961	78
Total credit risk	1,747,466	1,694,419	97
Market risk			
Equity in the banking book	0	0	--
Trading book market risk	--	0	--
Total market risk	--	0	--
Insurance risk	--	0	--
Operational risk	--	116,388	--
RWA before MLI adjustments		1,810,807	100
MLI adjustments			
Industry and geographic diversification		(99,698)	(6)
Preferred creditor treatment		1,269,641	70
Single-name concentration		(387,988)	(21)
High-risk exposure cap		(0)	(0)
Total MLI adjustments		781,954	43
RWA after MLI adjustments		2,592,761	143
		Adjusted common equity	**S&P Global Ratings RAC ratio (%)**
Capital ratio before adjustments		838,185	46
Capital ratio after adjustments			32

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets. RAC--Risk-adjusted capital.

Earnings

Akin to other MLIs, CDB's public policy mandate imparts a lower rate of profitability than a commercial bank would sustain. In return for providing the bank with high earnings retention, borrowing members receive concessional loans, often at below-market interest rates.

Comprehensive income has been declining. In 2016, the bank reported a comprehensive loss of $15.7 million following comprehensive income of $8.5 million in 2015 and $34.9 million in 2014, mainly because of derivative fair value adjustments resulting from the revaluation of the derivative financial instruments comprising cross-currency and interest rate swaps.

CDB's net interest income relative to average net loans was 1.5% in 2016, decreasing from 2% in 2015, while the bank's interest expense slightly declined to 3.6% of average borrowings from 3.9%. The latter reflects the hedging of the bank's borrowings. In September 2014, CDB entered an interest rate swap to hedge the second half of its $300 million 4.375% bond due 2027 (the first half was hedged in 2013).

CDB's efficiency ratio--administrative expense per average ACE--increased and was 1.6% in 2016.

The bank's loan income is highly sensitive to the performance of its top three borrowers. The bank derives about half of its loan-related income from Jamaica, Barbados, and St. Vincent and the Grenadines in 2016.

Table 5

Profitability Ratios					
	--Year ended Dec. 31--				
	2016	2015	2014	2013	2012
Net income/average adjusted assets (%)	0.10	0.80	1.40	1.10	1.40
Net income/average adjusted common equity (%)	0.1	1.3	2.7	2.6	3.4
Comprehensive income/average adjusted assets (%)	(1)	0.6	2.9	0.7	0.6
Comprehensive income/average adjusted common equity (%)	(1.8)	1.0	5.5	1.7	1.6
Net interest income/average net loans (%)	1.4	2.0	2.3	2.2	2.9
Interest expense/average borrowings (%)	3.6	3.8	3.3	2.6	1.5
Administrative expense/average adjusted common equity (%)	1.6	1.7	1.5	1.6	1.7
Memo:					
Net income (mil. US$)	1	11	19	17	21
Net increase (decrease) in cash and cash equivalents during the year	28	31	(33)	(28)	17

Treasury risk

CDB takes on more treasury-related risk than its regional and subregional peers. The bank uses two different accounting methods to report its derivatives relative to the borrowings they cover. This contributes significant volatility to the bank's comprehensive income, although the bank expects its hedges to be economically effective over time.

Credit risk

CDB assumes counterparty risk via its cash and securities investments as well as its derivative counterparties. The bank manages the risk prudently, in our view. At the end of 2016, and in line with 2015, the bank had invested the bulk of its liquidity investments (98% as of 2016) in unencumbered securities that S&P Global Ratings rates 'AA-' or above (or the equivalent by another agency). The remaining liquidity investments were cash and deposits--totaling 3% of adjusted assets--in investment-grade banks. The counterparties for CDB's derivative transactions are global banks.

Interest rate risk

CDB uses shareholders' equity funding (totaling about half of adjusted assets over the past five years), which acts as a natural hedge against market interest rate changes.

The bank also manages its interest rate risk by providing floating-rate loans, to which it attempts to match the structure in its borrowings. Interest and principal are payable quarterly, and CDB may reset the interest rate semiannually. The bank issues floating-rate debt when possible, or it swaps fixed-rate issues to floating-rate obligations when this is cost effective.

The bank held two dual-currency interest rate swaps to transform its two yen-denominated borrowings, which carry interest rates of 2.75% and 4.35%, into floating-rate obligations, and two additional interest rate swaps to transform the entire amount of its $300 million fixed-rate bond, which carries a 4.375% interest rate, into a floating-rate obligation.

Most recently, in July 2016, CDB entered a cross-currency interest rate swap related to its CHF145 million bond issuance. The swap was used to transform the underlying 0.297% fixed-rate borrowing in Swiss francs to floating-rate obligations in U.S. dollars. The swap matures concurrently with the borrowing in 2028.

Exchange rate risk

CDB denominates all of its loan assets and debt service receivables in U.S. dollars and reports its financial position in the same. Its most recent GCI instalments are also payable in dollars. 54% of CDB's outstanding debt as of Dec. 31, 2016, is denominated in its currency of operation. The remaining is CDB's two outstanding yen-denominated bonds and Swiss francs-denominated 2016 CHF145 million bond. CDB partially hedges the exchange rate risk on these bonds using currency-swap agreements.

Although the bank expects its hedges to be economically effective, CDB's use of two different accounting treatments adds significant volatility to comprehensive earnings. The bank marks its derivatives (cross-currency interest rate swaps) to market while recording its bonds at historical cost.

Risk Position

The bank's RAC ratio was 30% after adjustments as of Dec. 31, 2016.

Loan growth in 2016 picked up to 2.43% from a 1.3% average the two previous years. Net loans outstanding as a share of adjusted total assets fell to 66% in 2016 from 73% in the previous year.

In comparison with peers, CDB is well-capitalized for its risk position. At the end of fiscal-year 2016, CDB maintained higher relative capital adequacy than the Central American Bank for Economic Integration (CABEI) and the Eurasian Development Bank (EDB), which are also subregional multilateral development banks with sizable public-sector portfolios of similar loan products.

Chart 1

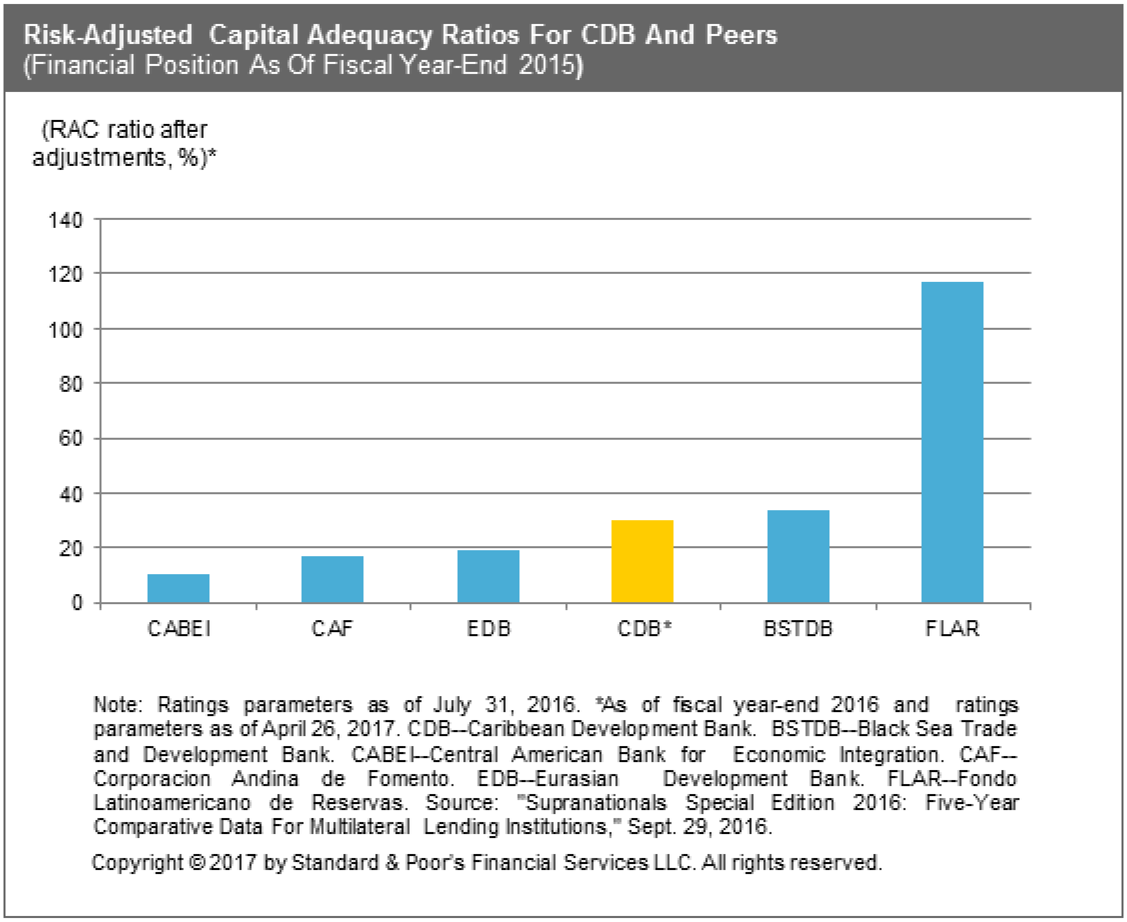


Table 6

Country Data And Projections For CDB's Top 10 Borrowing Members

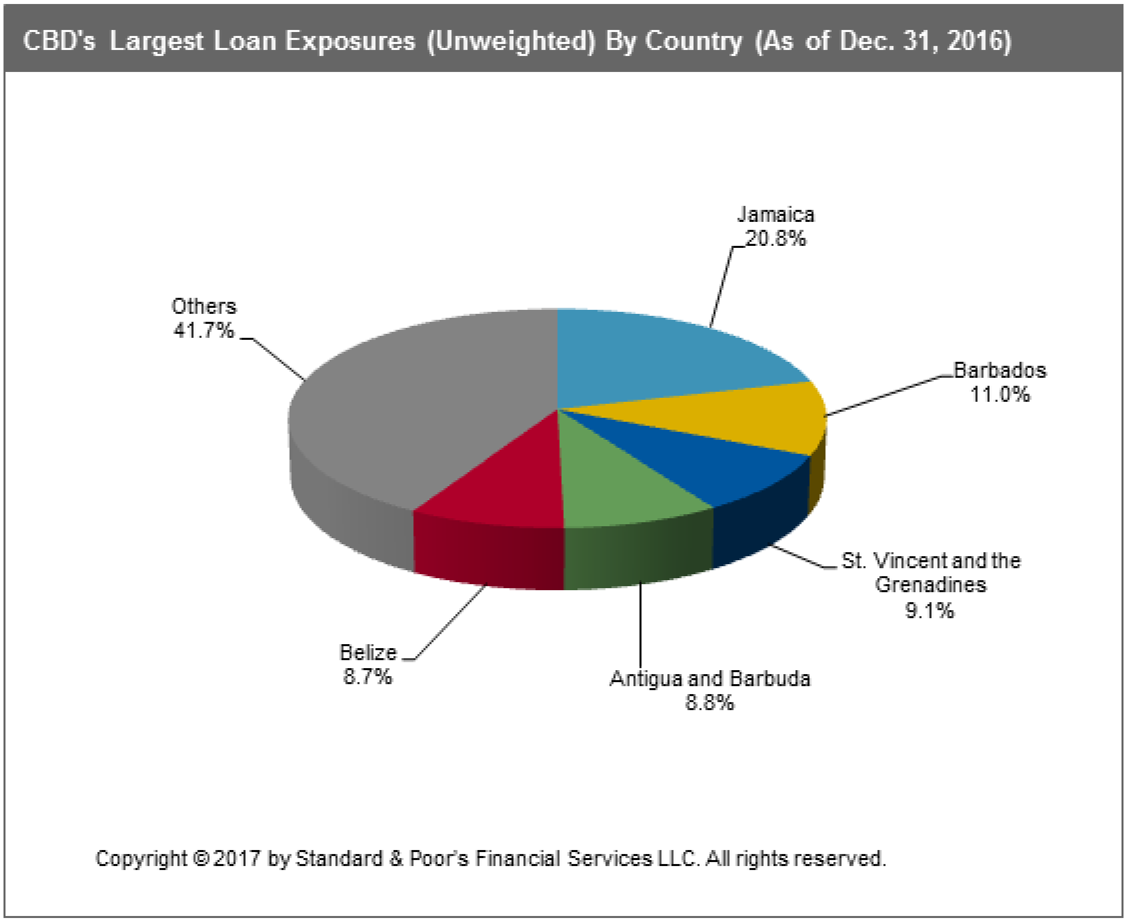
	--2017f--	--2018f--	--2016--		
	Real GDP growth (% change)	Real GDP growth (% change)	GDP per capita (US$)	Net general government debt (% GDP)	General government interest expense/ revenues (%)
Anguilla*	N/A	N/A	N/A	N/A	N/A
Antigua and Barbuda*	2.2	1.7	15,487.57	N/A	N/A
Barbados	0.8	0.5	15,572.51	101.01	15.03
Belize	0.8	1.8	4,567.60	82.52	8.75
Grenada	2.5	2.3	9,626.24	75.42	10.95
Jamaica	1.9	2.1	5,053.30	111.05	27.94
St. Kitts and Nevis*	3.5	3.4	16,058.34	N/A	N/A
St. Lucia*	0.5	1.5	7,939.63	N/A	N/A
St. Vincent and the Grenadines*	2.5	2.8	7,037.94	N/A	N/A
Trinidad and Tobago	1.0	2.0	15,950.00	34.61	6.74

*We do not rate these entities. Data source for countries we do not rate: International Monetary Fund World Economic Outlook, April 2016. f--Forecast. N/A--Not available.

Exposure concentrations

CDB maintains significant exposure to a handful of Caribbean sovereign borrowers, many of which have high default risk. The sovereign single-name concentration adjustment for the potential loss on these exposures--partially offset by our expectation of PCT--explains the difference between the 46% RAC before MLI-specific adjustments and the 32% RAC after as of December 2016.

Chart 2



Although CDB complied with its portfolio exposure limits over the last three years and reduced its loan concentration to the top three borrowers over the last five years, we view these limits as more expansive than development banks' with more diversified exposure.

The bank's top three loan exposures as of December 2016 represented 42% of the total loan portfolio, down from 46% in 2015. Exposure concentration has dropped over the past five years as CDB's top three loan exposures represented 80% of ACE in 2010. The capital charge for potential loss on CDB's largest exposures is calibrated to an 8% minimum capital ratio. The large sovereign concentration adjustment reflects both the lower relative creditworthiness of some of CDB's borrowers and the top five sovereigns' large share of CDB's exposure at default (EAD, which includes assets, half of committed undisbursed loans and equity investments, plus the full amount of guarantees and letters of credit).

Asset quality: loan loss experience

PCT and the ability to restructure loans through SFR in advance of a borrower default have supported the asset quality of CDB's sovereign loan portfolio over the years.

Currently, CDB does not provision for expected losses on its public-sector loan portfolio, though an assessment for loan impairments is done regularly, and, if necessary, appropriate provisions are made. CDB's ACE was 0.8x public-sector loans as of the end of 2016. The bank has experienced a higher rate of impairment on its small private-sector loan portfolio. This rose to 1.3% of loans in 2009, in the wake of the financial crisis. In 2016, CDB had minor levels of private-sector impaired loans, which were more than fully provisioned, in order to account for the loss of fees. These impaired loans represented 0.5% of total loans and originated from a Caribbean developmental financial institution.

Table 7

Asset Quality

	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Loan portfolio					
Impaired loans/total loans (%)	0.5	0.5	0.5	0.5	1.1
Impaired loans/total adjusted assets (%)	0.3	0.4	0.4	0.4	0.7
Impaired private-sector loans/total loans (%)	0.5	0.5	0.5	0.5	1.1
Impaired private-sector loans net of loan loss provisions/total loans (%)	(0.1)	(0.1)	(0.1)	0.0	0.4
Loan loss reserves for private-sector loans/impaired private-sector loans (%)	125.0	118.0	118.0	92.0	67.0
Loans loss provisions made in current year/net loans at previous year-end (%)	0.0	0.0	0.7	0.5	0.8
Loan write-offs/impaired loans at previous fiscal year-end (%)	0.0	0.0	0.0	0.0	0.0
ACE/impaired loans (x)	166	153	144	135	57

ACE--Adjusted common equity.

Guarantees

CDB has one outstanding guarantee, a $12 million partial guarantee for rescheduled bonds issued by the government of St. Kitts and Nevis in 2011 and for which the bank charges annual fees. As of April 3, 2017, the guarantee had not been called.

Funding And Liquidity

Funding

CDB has a less developed funding profile and less diversified global investor base than peers such as CABEI and Corporacion Andina de Fomento (CAF). To reduce its rollover risk, CDB structured its $300 million, 15-year bond issued in 2012 to amortize the principal over the last five years to maturity. In 2014, CDB paid its maturing $150 million floating-rate bond to reduce its cost-of-carry. As of year-end 2015, just over 92% of CDB's borrowings were bonds, which are long-dated. The bank's next bullet maturity is 2022.

In addition to market borrowings and loans from European Investment Bank and Inter-American Development Bank, CDB did not have an outstanding amount on its short-term borrowing as of year-end 2016 from a credit line CDB has with a highly rated commercial bank. CDB has historically not relied on short-term financing vehicles given the favorable terms of the credit.

We expect CDB would be able to fund its operations and meet its debt-service obligations for up to one year without capital market access.

CDB's static funding gap in December 2016, with all scheduled loan disbursements at one year, was 2.16x. The static funding gap is calculated as maturing assets divided by maturing liabilities; the ratio is cumulative and based on scheduled receipts and payments.

CDB's leverage remains 1x. The bank's gross debt-to-ACE ratio was 0.8x in 2016, and we expect it to remain low this year.

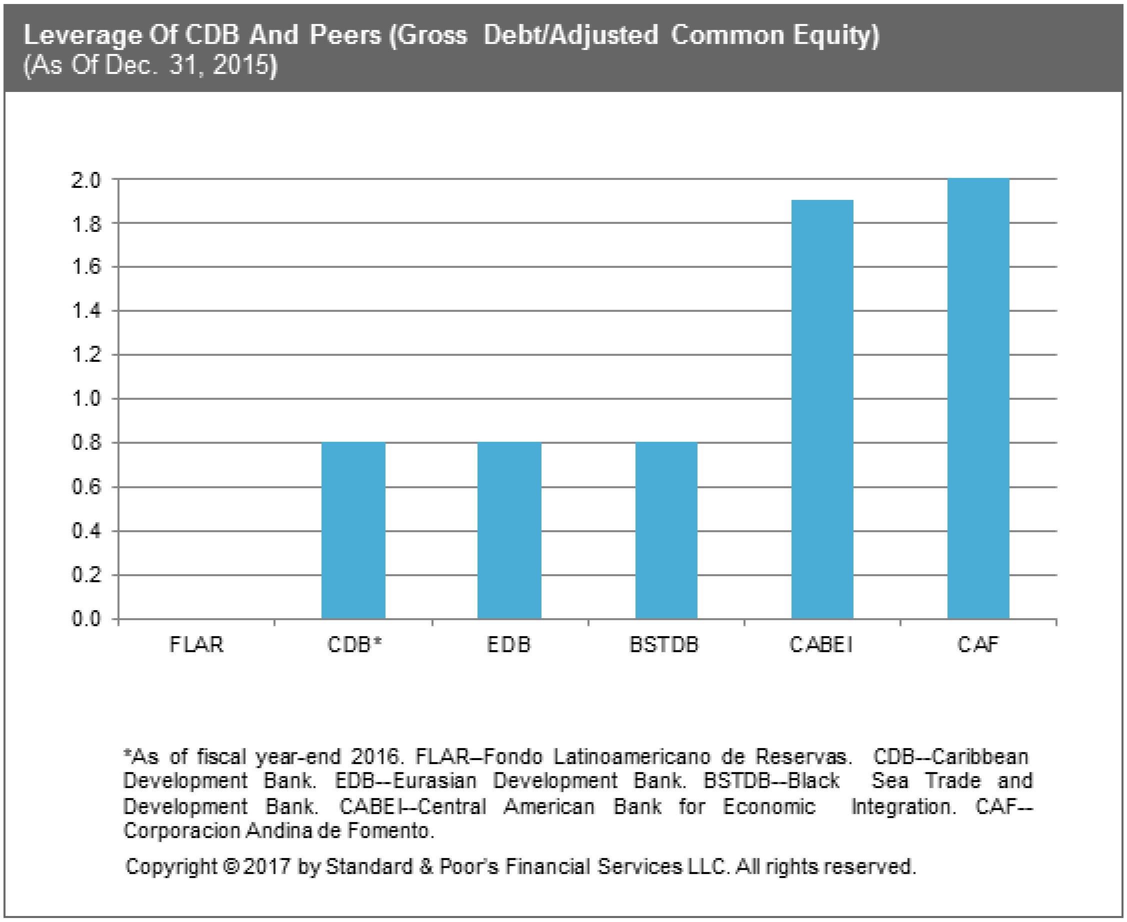
Table 8

Funding Ratios

	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Static funding gap* without loan disbursements at one year (x)	38.2	14.4	1.0	1.3	1.4
Static funding gap* at one year with half of scheduled loan disbursements (x)	1.7	1.4	0.9	0.7	1.0
Short-term debt (by remaining maturity)/adjusted total assets (%)	0.5	0.4	2.3	10.6	13.1
Gross debt/adjusted total assets (%)	42.2	37.0	39.9	47.7	57.8
Gross debt net of liquid assets/adjusted total assets (%)	14.0	18.1	19.6	21.9	26.6
Short-term liabilities (by remaining maturity)/total liabilities (%)	1.1	1.1	5.4	21.2	22.0
Total liabilities/adjusted total assets (%)	45.6	39.3	42.0	50.2	59.6
Gross debt/adjusted common equity (x)	0.8	0.6	0.7	1.0	1.4
Short-term debt (by remaining maturity)/gross debt (%)	1.1	1.2	5.7	22.3	22.7

*Short-term debt by remaining maturity includes short-term debt (maturing in less than 12 months) and long-term debt maturing in the next 12 months.

Chart 3



Liquidity

CDB has historically retained higher levels of balance-sheet liquidity because of its selective capital market access and historically uneven loan debt maturities.

On the other hand, liquid assets as a percentage of adjusted total assets increased to 28% in December 2016 from 19% a year earlier, mainly because of the CHF145 million bond issued in July 2016. CDB's liquidity ratio at one year with all scheduled loan disbursements was 1.11x as of Dec. 31, 2016. Under our extreme capital markets and economic conditions stress test, CDB's liquid assets are sufficient to service its debt and maintain operations for one year without capital market access. CDB's liquidity ratios are stronger than other subregional peers, such as CABEI, as well as regional peers, such as CAF, both of which have liquidity ratios at one year of less than 1x, assuming that they would have to disburse half of all scheduled loan disbursements.

Table 9

Liquidity Ratios					
	--Year ended Dec. 31--				
	2016	2015	2014	2013	2012
Liquid assets/adjusted total assets (%)	28	19	20	26	31
Cash and cash equivalents/liquid assets (%)	22	27	16	22	20

Table 9

Liquidity Ratios (cont.)					
	--Year ended Dec. 31--				
	2016	2015	2014	2013	2012
Securities/liquid assets (%)	78	73	84	78	80
Liquid assets/gross debt (%)	67	51	51	54	54
Liquid assets/short-term debt by remaining maturity* (%)	5,830	4,275	898	243	238

*Short-term debt by remaining maturity includes short-term debt (maturing in less than 12 months) and long-term debt maturing in the next 12 months.

Likelihood Of Extraordinary Shareholder Support

The 'AA+' long-term foreign-currency issuer credit rating on CDB does not incorporate additional uplift above CDB's 'aa+' SACP. Although CDB's higher-rated shareholders have provided the bank $205.5 million in eligible callable capital (enough to raise its capital adequacy by one notch), CDB's balance-sheet capital adequacy (a RAC ratio after adjustments of 32%) reaches the top of our scale. Therefore, we do not need to incorporate any uplift for our expectation of extraordinary shareholder support.

Appendix

Table 10

Summary Balance Sheet					
	--Year ended Dec. 31--				
(Mil. US$)	**2016**	**2015**	**2014**	**2013**	**2012**
Assets					
Cash and money market instruments	94.2	69.7	43.0	81.0	100.5
Securities	340.3	186.0	226.5	282.9	394.5
Memo:					
Total deposits	34.0	73.4	31.7	52.3	81.1
Liquid assets	434.5	255.7	269.4	364.0	495.0
Net loans	1,016.9	992.8	982.8	968.1	980.9
Purpose-related assets (gross)	1,023.2	1,026.9	995.4	979.5	994.5
Purpose-related assets (net)	1,016.9	1,020.5	989.1	974.7	986.9
Derivative assets	58.7	56.3	52.4	54.0	95.3
Fixed assets	12.2	11.8	8.9	8.0	8.3
Accrued receivables	16.9	6.8	(1.3)	(2.7)	(2.6)
Total assets	1,599.2	1,407.1	1,378.5	1,452.3	1,640.8
Total adjustments to shareholders' equity	(58.3)	(51.6)	(51.2)	(41.0)	(53.6)
Total adjusted assets*	1,540.9	1,355.4	1,327.3	1,411.3	1,587.2
Liabilities					
Total deposits	34.0	73.0	32.0	52.0	81.0
Other borrowings (gross debt)	650.5	501.2	529.0	673.6	917.3

Table 10

Summary Balance Sheet (cont.)

	--Year ended Dec. 31--				
(Mil. US$)	**2016**	**2015**	**2014**	**2013**	**2012**
Other liabilities	52.2	31.9	27.9	35.1	29.4
Memo:					
Derivative liabilities	22.0	N/A	N/A	6.8	N/A
Total liabilities	702.7	533.1	557.0	708.7	946.7
Shareholders' equity					
Paid-in capital and surplus	381.6	343.3	299.5	256.4	218.7
Retained earnings	517.9	530.6	522.1	487.2	488.2
Shareholders' equity	896.5	874.0	821.6	743.6	694.1
Memo:					
Dividends (not yet distributed)	0.0	0.0	0.0	0.0	0.0
Eligible callable capital	327.9	327.9	327.9	327.9	327.9
Total guarantees	12.0	12.0	12.0	12.0	12.0
Undisbursed loans (100%)	387.1	337.1	307.1	289.8	285.3

*Adjustments made to reported shareholders' equity to calculate adjusted common equity (an institution's cash capital) are carried through to total assets. N/A--Not available.

Table 11

Adjusted Common Equity

	--As of Dec. 31--				
(Mil. US$)	**2016**	**2014**	**2013**	**2012**	**2011**
Shareholders' equity (reported)	897	874	822	744	694
Less (-):					
Capital payments committed (subscribed) but not yet due	N/A	N/A	N/A	N/A	N/A
Capital payments due but not yet received	7	6	11	7	11
Promissory notes receivable*	46	46	45	44	44
Maintenance of value receivables on currency holdings§	6	5	4	3	3
Capital subscriptions in restricted currencies	N/A	N/A	N/A	N/A	N/A
Unrecognized employee pension or other post-retirement benefit liability	N/A	N/A	N/A	N/A	N/A
Other adjustments to deduct non-cash equity items	0	(4)	(9)	(13)	(4)
Total adjustments to shareholders' equity	(58)	(52)	(51)	(41)	(54)
Adjusted common equity	838	822	770	703	641

*Promissory notes are notes from shareholders, which a multilateral financial institution may have accepted from shareholders in lieu of cash capital and which are carried on the balance sheet as shareholders' equity. Promissory notes exclude callable capital, which most institutions do not count as balance sheet capital. §Currency fluctuations between an institution's operating currency and capital valued in restricted currency generate maintenance of value (MOV) assets and liabilities for some multilateral financial institutions. We deduct MOV assets from shareholders' equity. N/A--Not available.

Table 12

Summary Statement Of Income

	--Year ended Dec. 31--				
(Mil. US$)	**2016**	**2015**	**2014**	**2013**	**2012**
Interest income	36	40	43	43	43
Interest expense	21	20	20	21	13
Net interest income	15	20	23	22	30
Operating noninterest income	6	12	10	8	6
Other noninterest income	2	1	0	2	1
Operating revenues	42	52	53	51	49
Noninterest expenses	19	21	12	11	11
Credit loss provisions (net new)	0	0	2	1	3
Operating income after loss provisions	2	11	20	17	22
Net income	2	11	20	17	22
Other comprehensive income	(17)	(3)	21	(6)	(11)
Comprehensive income	(16)	9	41	12	10
Memo:					
Net increase (decrease) in cash and cash equivalents during the year	29	31	(34)	(29)	17

Table 13

Membership, Capital, And Voting Shares

	--As of Dec. 31, 2016--	
	Subscribed capital (mil. US$)	**% voting shares**
Total shareholders		
Total shareholders	1,685	100
Borrowing eligible members	930	55
Non-borrowing-eligible members	756	45
Borrowing-eligible members		
Jamaica	292	17
Trinidad & Tobago	292	17
Bahamas	86	5
Guyana	63	4
Barbados	55	3
Suriname	25	2
Belize	13	1
Dominica	13	1
Grenada	11	1
St. Lucia	13	1
St. Vincent and the Grenadines	13	1
Antigua and Barbuda	13	1
St. Kitts and Nevis	13	1
Anguilla*§	3	0
Montserrat*	3	0

Table 13

Membership, Capital, And Voting Shares (cont.)

	--As of Dec. 31, 2016--	
	Subscribed capital (mil. US$)	**% voting shares**
British Virgin Islands*	3	0
Cayman Islands*	3	0
Turks and Caicos Islands*	3	0
Haiti	13	1
Subtotal	930	55
Non-borrowing-eligible members		
Venezuela	47	3
Colombia	47	3
Mexico	47	3
Canada	157	9
U.K.	157	9
Italy	94	6
Germany	94	6
People's Republic of China	94	6
Brazil	19	1
Subtotal	756	45

*These territories collectively share one governor and have 0.93% of shares and 0.97% of votes. §Anguilla was formerly part of St. Kitts-Nevis-Anguilla but became an overseas British territory in 1980 and also shares a governor with the four other territories. Source: Caribbean Development Bank Financial Statements 2016 of the Ordinary Capital Reserves.

Related Criteria

- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of July 27, 2017)

Caribbean Development Bank		
Counterparty Credit Rating		
Foreign Currency		AA+/Stable/A-1+
Senior Unsecured		AA+
Counterparty Credit Ratings History		
09-May-2017	*Foreign Currency*	AA+/Stable/A-1+
16-May-2014		AA/Stable/A-1+
12-Dec-2012		AA/Negative/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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